



General Assembly

Distr.
GENERAL

A/C.5/43/17
20 October 1988

ORIGINAL: ENGLISH

Forty-third session
FIFTH COMMITTEE
Agenda item 114

PROGRAMME BUDGET FOR THE BIENNIUM 1988-1989

Loan to the United Nations Industrial Development Organization:
special appropriation under General Assembly resolution 40/253

Report of the Secretary-General

I. BACKGROUND

1. The General Assembly by resolution 40/253 A of 18 December 1985, approved a special appropriation of \$24 million to finance a loan to the United Nations Industrial Development Organization (UNIDO). This loan was made pursuant to paragraph 8 of General Assembly resolution 34/96 of 13 December 1979 on transitional arrangements relating to the establishment of UNIDO as a specialized agency.
2. The loan was intended to meet the expenses of the initial operations of the new agency until it received sufficient contributions or advances from its members. The modalities of the loan were approved by the Advisory Committee on Administrative and Budgetary Questions (ACABQ), and repayments were to be made in accordance with a schedule that required the loan to be fully repaid by 31 December 1987.
3. In the event, UNIDO's cash needs were such in 1986 that only \$16 million of the approved loan of \$24 million was advanced by the United Nations, and the amount of the special appropriation was reduced accordingly. However, the new organization also began experiencing financial difficulties in the latter part of 1986, and its ability to meet the conditions of repayment of the loan came into question.
4. The financial situation of UNIDO was brought to the attention of the General Assembly in reports of the Secretary-General to both the forty-first 1/ and forty-second sessions. 2/

5. At its forty-first session, the General Assembly, by resolution 41/209 VI decided:

"that the amount of the special appropriation made by the General Assembly at its fortieth session to finance a loan to the United Nations Industrial Development Organization shall be adjusted to reflect actual requirements (\$16 million), on the understanding that income from the repayment of the loan to that organization would be credited to income section 2 (General income) only in 1988 and on the understanding that, should its financial situation improve to such an extent that the United Nations Industrial Development Organization finds it possible to repay the loan in 1987, the Secretary-General would so inform the General Assembly and would reflect the repayment in the final performance report on the programme budget for the biennium 1986-1987."

6. At the forty-second session of the Assembly, the Secretary-General reported that:

"according to information received from UNIDO, the organization will not be able to make any loan repayment in 1987. UNIDO reports that it will only have the means to repay the United Nations loan when the arrears of assessed contributions for 1986-1987 are received, and on the assumption that other measures, such as the replenishment of the Working Capital Fund and timely receipt of assessed contributions for 1988, are sufficient to maintain a positive cash flow to finance current operations." 2/

The Secretary-General reported that:

"in the light of continued uncertainties regarding the collection of assessed contributions in 1988, UNIDO concludes that it seems unlikely that it would have funds available to repay any part of the loan before the fourth quarter of 1988, and that it would appear possible only to commence repayment in 1989, depending on the level of its outstanding contributions. The Director-General of UNIDO has expressed the hope that member States will provide a solution by meeting their obligations in respect of assessed contributions in full. While expressing his assurance to the United Nations that UNIDO will strive to find a satisfactory solution to the matter of the loan, he also appeals to the United Nations to continue to take a sympathetic and understanding view of the tenuous financial situation of UNIDO which is presently affecting the financial viability of the organization." 2/

7. In the light of the financial difficulties reported by UNIDO, the Secretary-General concluded that it would be prudent to reconsider the budgetary situation of the United Nations, as it relates to the loan to UNIDO. He noted that provision had been made in income section 2 of the proposed programme budget of the United Nations for the biennium 1988-1989 and that, according to the provisions of financial regulation 5.2 (b), one half of the estimated miscellaneous income as shown in the budget would be offset against the assessments of member States in each of the two years of the biennium. In the case of the UNIDO loan, that meant that Member States assessments to the United Nations would be reduced, in

anticipation of UNIDO loan repayments, by \$8 million in 1988 and by a further \$8 million in 1989. However, in view of the financial circumstances both of UNIDO and of the United Nations, the Secretary-General proposed

"that the provisions of financial regulation 5.2 (b) be waived with respect to the repayment of the UNIDO loan, and that this item be considered separately in the annual financing resolutions for the budget. The Secretary-General therefore proposes that the assessment on Member States for 1988 not be reduced by any part of this loan, and that the assessment for 1989 be reduced only by that part of the loan which is actually repaid in 1988. In this way, the cash flow of the United Nations would not be adversely affected by the financial difficulties of another organization, while the Member States [of the United Nations] would receive credit in their assessments without delay once the repayments have been made." 2/

8. ACABQ, in its related report, while not unsympathetic to the difficult financial situation of UNIDO, expressed its concern at the continued deferral of the loan repayment. The Committee, expressed the view that "a pragmatic and realistic modality for repayment, including a specific schedule of payments, should be negotiated and submitted to the Advisory Committee no later than its fall 1988 session. Once approved, the schedule of payments should be strictly adhered to". 3/

9. ACABQ concurred with the proposal of the Secretary-General that assessments on Member States for 1988 should not be reduced by the above-mentioned \$8 million, and recommended that a decision regarding the 1989 assessments be taken by the General Assembly at its forty-third session, once a modality for repayment had been approved.

10. At the forty-second session of the Assembly, the Fifth Committee approved the recommendation of the Advisory Committee 4/ and in General Assembly resolution 42/226 C assessments on Member States for 1988 were not reduced.

II. DEVELOPMENTS SINCE THE FORTY-SECOND SESSION

11. The Programme and Budget Committee of UNIDO held its fourth session from 20 to 24 June 1988. It had before it a report of the Director-General relating to the programme of repayment of the United Nations loan to UNIDO. 5/ The Director-General noted that outstanding assessed contributions to UNIDO as at 31 December 1987 amounted to \$26 million, representing 43.75 per cent of 1987 assessments. UNIDO was therefore unable to make any repayments against the loan in 1987. The Director-General further noted that estimates of collections for 1988-1989 did not indicate that the level of outstanding contributions would significantly decrease. It would appear unlikely that UNIDO would be in a position to make any repayment against the loan balance during 1988-1989.

12. The Director-General informed the Programme and Budget Committee of UNIDO that "the United Nations has taken the view that repayment of the loan should not be exclusively contingent on particular factors, but should be made in accordance with firm commitments within a fixed time period, which could cover a number of years.

UNIDO could agree to the repayment of the loan over a number of years. Repayments would be expected to be at least \$1 million per annum. Should the level of the outstanding assessed contributions be significantly reduced, and should the cash flow situation permit, it is anticipated that additional payments above the \$1 million would be possible."

13. The Director-General concluded that the shortfall of receipts from assessed contributions made it unlikely that payments could be made from that source in the next several years, and he made suggestions for alternative financing sources.

14. On 24 June, the Programme and Budget Committee adopted conclusion 1988/6, which states:

"The Programme and Budget Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the proposals of the Director-General on the programme for repayment of the United Nations loan to UNIDO (PBC.4/10);

"(b) Decides that the repayment of the United Nations loan should be made from the collection of outstanding assessed contributions without thereby increasing the financial liabilities of member States;

"(c) Authorizes the Director-General, taking into account the recommendations of the Advisory Committee on Administrative and Budgetary Questions (A/42/7/Add.5) and of the United Nations General Assembly in its resolution 42/226 C, to negotiate a revised modality of repayment, based on the following considerations:

"(i) The modality should include a specific schedule of payments of a regular payment of \$1 million per annum, commencing in 1990;

"(ii) Pending further review on the financial situation of UNIDO, UNIDO could make additional payments, accelerating the schedule to be negotiated under (i) above, whenever the outstanding balance for assessed contributions is less than the amount of the Working Capital Fund established for UNIDO by the General Conference plus the outstanding balance of the United Nations loan."

15. On 18 October 1988, by its decision IDB.4, the Board adopted the decision.

III. CONCLUSIONS AND RECOMMENDATION

16. The Secretary-General is fully aware of the financial difficulties of UNIDO. The delays UNIDO has experienced in payment of assessed contributions have led to exhaustion of UNIDO's Working Capital Fund, and the organization has not so far been able to build up reserves or other modalities to relieve the situation.

17. In the light of these circumstances, UNIDO has taken the view that it has no choice but to convert unilaterally the United Nations loan, which was intended as a short-term bridging facility, into a long-term element of UNIDO's financial structure, which may take as long as 19 years to repay.

18. The Secretary-General believes that this was not what the States Members of the United Nations had in mind when the General Assembly approved a special assessment on the States Members of the United Nations as a transitional measure relating to the establishment of the new agency. Primary responsibility for the financial stability of UNIDO lies with UNIDO itself, rather than with the United Nations.

19. As a result, the Secretary-General has difficulty entering into negotiations with the Director-General of UNIDO in the context of the UNIDO Programme and Budget Committee's conclusion 1988/6 quoted above. Subject to the guidance of the General Assembly, the Secretary-General would prefer to see a solution whereby UNIDO would take the necessary steps to assume its financial responsibilities within a reasonable period of time, recognizing that this may involve a special appropriation, or other special financial arrangements, affecting States members of UNIDO. In the Secretary-General's view the maximum time that such a loan should continue to be borne by the States Members of the United Nations is five more years - i.e. until the end of the biennium 1992-1993. Repayment should be at the rate of either \$3.2 million a year, beginning in 1989, or \$4 million a year, beginning in 1990.

20. The Secretary-General also considers that, in view of the change in the nature of the loan, a reasonable rate of interest should be charged.

21. In the absence of an agreement on a firm modality for repayment in the current biennium and in view of the present financial situation of the United Nations, the Secretary-General proposes that the special arrangement made in resolution 42/226 C regarding assessments on States Members of the United Nations be continued for 1989.

Notes

1/ A/C.5/41/33.

2/ A/C.5/42/10.

3/ Official Records of the General Assembly, Forty-second Session, Supplement No. 7A (A/42/7/Add.5, para. 9).

4/ A/C.5/42/SR.48.

5/ PBC.4/10.
